

**REPORT OF THE AUDIT OF THE
ANDERSON COUNTY
SHERIFF TAX SETTLEMENT**

April 18, 2002



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
ANDERSON COUNTY
SHERIFF'S SETTLEMENT - 2001 TAXES**

April 18, 2002

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2001 Taxes for Anderson County Sheriff as of April 18, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$7,539,189 for the districts for 2001 taxes, retaining commissions of \$260,350 to operate the Sheriff's office. The Sheriff distributed taxes of \$7,274,737 to the districts for 2001 Taxes. No taxes are due to the districts from the Sheriff and no refunds are due to the Sheriff from the taxing districts.

Report Comments:

- Lacks Adequate Segregation Of Duties
- The Sheriff Should Have A Written Agreement to Protect Deposits

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds, however, the Sheriff did not have a written collateral security agreement with the bank, nor did the bank's Board of Directors approve the collateral security agreement.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Anthony D. Stratton, Anderson County Judge/Executive

Honorable Jim Evans, Anderson County Sheriff

Members of the Anderson County Fiscal Court

Independent Auditor's Report

We have audited the Anderson County Sheriff's Settlement - 2001 Taxes as of April 18, 2002. This tax settlement is the responsibility of the Anderson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Anderson County Sheriff's taxes charged, credited, and paid as of April 18, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Anthony D. Stratton, Anderson County Judge/Executive
Honorable Jim Evans, Anderson County Sheriff
Members of the Anderson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have A Written Agreement to Protect Deposits
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 7, 2002

ANDERSON COUNTY
JIM EVANS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2001 TAXES

April 18, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 865,462	\$ 671,198	\$ 3,761,119	\$ 1,100,026
Tangible Personal Property	90,931	84,981	296,721	285,041
Intangible Personal Property				20,370
Franchise Corporation	33,594	27,901	121,357	
Distilled Spirits Taxes	75,682	77,674	246,962	
Additional Billings	264	199	974	185
Limestone, Sand, and Mineral Reserves	70	63	302	88
Penalties	5,594	4,378	24,189	7,483
Adjusted to Sheriff's Receipt	1	(10)	7	(9)
Gross Chargeable to Sheriff	<u>\$ 1,071,598</u>	<u>\$ 866,384</u>	<u>\$ 4,451,631</u>	<u>\$ 1,413,184</u>
<u>Credits</u>				
Exonerations	\$ 1,572	\$ 1,328	\$ 6,812	\$ 1,987
Discounts	15,560	12,623	64,148	21,254
Delinquents:				
Real Estate	17,286	13,625	75,122	21,971
Tangible Personal Property	1,262	1,275	4,118	3,665
Total Credits	<u>\$ 35,680</u>	<u>\$ 28,851</u>	<u>\$ 150,200</u>	<u>\$ 48,877</u>
Taxes Collected	\$ 1,035,918	\$ 837,533	\$ 4,301,431	\$ 1,364,307
Less: Commissions *	<u>44,314</u>	<u>28,722</u>	<u>129,043</u>	<u>58,271</u>
Taxes Due	\$ 991,604	\$ 808,811	\$ 4,172,388	\$ 1,306,036
Taxes Paid	991,047	808,417	4,169,948	1,305,325
Refunds (Current and Prior Year)	<u>557</u>	<u>394</u>	<u>2,440</u>	<u>711</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 3,016,276
3% on	\$ 4,301,431
1% on	\$ 211,482

The accompanying notes are an integral part of the financial statement.

ANDERSON COUNTY
NOTES TO FINANCIAL STATEMENTS

April 18, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution pledged or provided sufficient collateral of \$6,000,000. However, the depository institution's board of directors or loan committee did not approve the pledge or provision of collateral, and the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

ANDERSON COUNTY
NOTES TO FINANCIAL STATEMENT
April 18, 2002
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2001 through April 18, 2002.

Note 5. Interest Income

The Anderson County Sheriff earned \$5,034 as interest income on 2001 taxes. As of October 7, 2002, the Sheriff owes \$172 in interest to the school district and \$297 in interest to his fee account.

Note 6. Sheriff's 10% Add-On Fee

The Anderson County Sheriff collected \$27,629 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 7. Advertising Costs And Fees

The Anderson County Sheriff collected \$277 of advertising costs and \$1,949 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

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COMMENTS AND RECOMMENDATIONS

ANDERSON COUNTY
JIM EVANS, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

April 18, 2002

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). As of April 18, 2002, the Sheriff had bank deposits of \$440,781; FDIC insurance of \$100,000; and collateral pledged or provided of \$6,000,000. Even though the Sheriff obtained sufficient collateral of \$6,000,000, the pledge of collateral was not approved by the board of directors of the depository institution or its loan committee, and there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

This has been corrected for the 2002 tax season.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to improve the internal control structure:

- The Sheriff should periodically compare a daily bank deposit to the daily collection report and then to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily collection report, and receipts ledger.
- The Sheriff should periodically compare monthly tax reports to checks disbursed to each district. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response:

I will comply with the above suggestions.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties (Repeated In Current Year Report)

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Anderson County Sheriff's Settlement - 2001 Taxes as of April 18, 2002, and have issued our report thereon dated October 7, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Anderson County Sheriff's Settlement -2001 Taxes as of April 18, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations:

- The Sheriff Should Have A Written Agreement To Protect Deposits



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Anderson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations:

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 7, 2002

